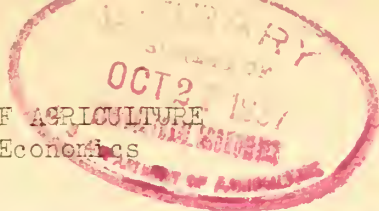


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UNITED STATES DEPARTMENT OF AGRICULTURE  
Bureau of Agricultural Economics  
Washington



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T H E C O T T O N S I T U A T I O N  
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Summary

Spot cotton prices at the 10 markets declined to an average of 7.96 cents for the week ended October 9, the lowest weekly average since April 1933, but have since recovered slightly. The average for the month of September was 8.72 cents, compared with 10.23 in August and with 12.05 cents in September 1936.

Major price-depressing influences have included the improvement in crop prospects in the United States, a large prospective crop in foreign countries, reduced cotton consumption in the Orient, declining unfilled orders and increasing mill stocks of cotton goods in some countries, particularly the United States, and declining prices of many other commodities and securities.

New loan provisions designed to make Government loans on cotton more attractive by raising loan rates on the shorter staples and lower grades and increasing the qualities eligible was announced by the Commodity Credit Corporation on October 4.

Mill activity and cotton consumption in the United States are still high relative to most past seasons. But orders booked by mills are continuing to lag behind the production of cotton goods, and new orders and mill activity are failing to show the seasonal increase usual at this time of year. Cotton consumption during September and early October was at a high level in most foreign countries, with the exception of China.

The indicated production of cotton in the United States in 1937-38 is 17,573,000 bales of 478 pounds, according to the October 1 report of the Crop

Reporting Board. This is the second largest United States production on record and makes the prospective world supply of American cotton 23,600,000 bales, or 22 percent more than in 1936-37.

#### DOMESTIC PRICES

##### Spot prices decline further

Spot cotton prices at the 10 markets declined to an average of 7.96 cents for the week ended October 9, the lowest weekly average since April 1933. But they have since recovered slightly. The average for the week ended October 16 was 8.22 cents. The average for the month of September was 8.72 cents compared with 10.23 in August and 12.05 cents in September 1936. Major price-depressing influences included the improvement in crop prospects in the United States and a large prospective crop in foreign countries, reduced cotton consumption in the Orient, declining unfilled orders and increasing mill stocks of cotton goods in some countries, particularly the United States, and declining prices of many other commodities and securities.

##### Government loans made more attractive to growers

The Commodity Credit Corporation announced on October 4 that cotton of 7/8 inch and longer staple and of strict low Middling or equivalent grade, heretofore eligible for loans at the rate of 7-3/4 cents, is now eligible for loans at 8-1/2 cents. Cotton of staple less than 7/8 inch and strict low Middling or equivalent grade, heretofore ineligible for loans, is made eligible for loan at the rate of 7 cents. Cotton of staple less than 7/8 inch and of low Middling or equivalent grade, heretofore ineligible for loans, is made eligible for loans at the rate of 6 cents. It is believed that these new rates will substantially increase the quantity of shorter staples and lower grades entering the loan stock during the remainder of the season.

It is important to note that under present provisions growers who put cotton into the Government loan will forfeit the right to the 3-cent adjustment payments on such cotton unless they take it out of the loan, paying loan principal and carrying charge on it, before July 1, 1938. This provision would seem to indicate that a relatively large portion of the cotton entering the loan stock will tend to come from that part of the crop which is not eligible for an adjustment payment. Since growers will receive the 3-cent payment on only 65 percent of their base production (base production equivalent to about 15,600,000 running bales), on the basis of present crop prospects more than 7,000,000 bales will not be eligible for an adjustment payment. It is believed by the trade that prices are such as to cause a considerable portion of this cotton to go into Government-financed stocks.

Up to and including October 18, only 606,000 bales had entered the loan stock. Trade reports state, however, that large quantities of cotton are being held by growers pending their decision as to whether to sell it or pledge it to the Government for a loan.

## DEMAND AND CONSUMPTION

Domestic mill activity still high, but tending downward

According to the New York Cotton Exchange Service, mill activity in the United States tended to decline in September and the first half of October in contrast to the seasonal rise which generally occurs about this time of the year. Consumption of 602,000 bales of all kinds of cotton was slightly smaller than August utilization of 604,000 bales but, with the exception of September of last season and September 1927, it was the largest consumption in any corresponding month on record.

Mills encountered a somewhat better demand for many lines of goods about the middle of October, but it is reported that sales were still below production. The decline in prices of cotton goods during the past 2 months has been more than equal to the decrease in raw cotton prices. Mill margins in September were 14.38 cents compared with 15.14 in August, 15.59 in July, and the record high of 18.22 cents in January.

Foreign mill activity, cotton consumption high except in China

There was some hesitation and uncertainty in the European cotton textile markets in September but conditions in general were comparatively favorable.

In the British market, after several months of a reduced volume of sales of yarn and cloth, there was evidence of an increased buying interest both for the domestic market and for exports. In early October, sales of yarn and cloth by mills ran somewhat in excess of mill output and operations are being well maintained at the highest level in recent years. Sales of goods by French mills were larger in September than in August, although there was hesitation and uncertainty in the French market because of the weakness of the franc. In Germany, imports of raw cotton were larger than for many months past.

The lower prices for raw cotton should encourage a higher level of European imports and consumption of raw cotton, particularly if general business conditions there are maintained or show further improvement. The difficulty of obtaining foreign exchange in such countries as Germany and Italy, however, will no doubt restrict imports and consumption somewhat below what might otherwise occur.

It has been expected for the past 2 or 3 months that mill activity and cotton consumption would decline in Japan as a result of a falling of orders below mill output and a shortage in raw material supplies. So far, however, no curtailment of mill activity or cotton consumption has taken place. Japanese yarn production and exports of piece goods in September were the largest for any month on record. Trade reports state, however, that the industry has agreed to operate during the months of October, November, and December at a rate about 7 percent below the September level and beginning in January at a rate about 12 percent below the recent level.

The manufacture of and trade in cotton goods in China is greatly restricted. At Shanghai all but about 15 percent of total spindles are idle,



and the 15 percent that are in operation are working only half time. 1/

United States exports larger to Europe; smaller to Japan

Exports of cotton from the United States in the 2 months ended September 30 amounted to 838,000 bales, an increase of 11 percent over exports of 752,000 bales in the corresponding period a year earlier. Exports to nearly all of the European countries were materially above those for last season, but shipments to Japan were less than one-fourth as large as in 1936.

SUPPLY

Prospective United States production second largest in history

The indicated United States production of cotton on the basis of conditions on October 1 was 17,573,000 bales of 478 pounds, according to the Crop Reporting Board. This increase of nearly 1,500,000 bales over the September 1 figure indicates the second largest United States production on record.

The prospective world supply of American cotton for 1937-38 is 23,600,000 bales. This is approximately 4,250,000 bales or 22 percent more than last season's supply, 1,300,000 bales or 6 percent more than the 1928-29 to 1932-33 average, but 2,600,000 bales or 10 percent below the record high supply of 1932-33. The indicated yield per acre for the United States, of 249.3 pounds, is the highest on record and compares with 197.9 pounds in 1936 and the average of 174 pounds in the 5 years ended 1932-33.

Military operations reduce Chinese crop prospects

Frequent heavy rains in both North China and the Yangtze Valley have delayed harvesting of cotton and caused some damage to the crop, especially in North China, according to Agricultural Commissioner Dawson at Shanghai. Military activity in the Shanghai area and in parts of North China also has prevented harvesting, and has resulted in the destruction of many fields. In light of these developments, it seems probable that the estimate of Chinese production of 4,400,000 bales of 478 pounds published in last month's Situation is somewhat too high.

The movement of cotton to market has been greatly retarded in all areas, and prices offered to farmers are very low as a result of the shutting down of a large part of the Chinese textile industry. In addition, dealers are unable to obtain transportation facilities to move the crop to what market outlets there are available. It is reported that the Provincial Governments are taking steps to encourage the purchasing and holding of cotton by dealers and that the central Government has plans under way for the creation of a Government controlled holding organization to buy cotton from farmers at fixed prices and store it in the interior until satisfactory market outlets can be secured.

Egyptian production expected to be a record high

The first estimate of the Egyptian Government places 1937-38 production in Egypt at 2,309,000 bales or 478 pounds. The largest previous crop was the 1,887,000 bales produced last year.

1/ Part of the information on Japan and China furnished by cable from Agricultural Commissioner Dawson at Shanghai.